



NORTH CAROLINA GENERAL ASSEMBLY

Session 2017

Legislative Retirement Note

Short Title: Admin. Changes Ret. System/Treasurer - 2018.-AB
Bill Number: House Bill 977 (First Edition)
Sponsor(s): Representatives Ross, McNeill, and Dulin

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 977, V.1 (\$ in thousands)

	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>
State Impact					
General Fund Impact	-	-	-	-	-
Highway Fund Impact	-	-	-	-	-
Other/Receipts Impact	-	-	-	-	-
NET STATE IMPACT	-	-	-	-	-
Local Impact					
Local Governments	-	-	-	-	-
NET LOCAL IMPACT	-	-	-	-	-

ACTUARIAL IMPACT SUMMARY

Sections 1, 2, and 3 have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), Registers of Deeds' Supplemental Pension Fund (RDSPF)

Section 1: Closes the Optional Retirement Program for presidents of State-funded community colleges appointed on or after July 1, 2018. Both Conduent, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

Section 2: Adds convictions on state charges of embezzlement to the enumerated list of reasons that an elected official's TSERS or LGERS pension could be forfeited. In addition, section two provides that if any portion of an elected Register of Deeds' LGERS benefit is forfeited, then that

member's entire RDSPF benefit is also forfeited. Both Conduent and Hartman & Associates estimate that this section will have no material impact on the contribution rates or liabilities of TSERS, LGERS, or RDSPF.

Section 3: Allows for payment plans to satisfy the withdrawal liability owed by a charter school that elects to cease participation in TSERS. The total liability must exceed \$2,000,000, at least 50% must be paid within 90 days, the remaining liability must be paid in no more than 36 equal payments, and the plan must be approved by the TSERS Board of Trustees. This section also gives the Retirement System a lien upon the school's property. Both Conduent and Hartman & Associates estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

ASSUMPTIONS AND METHODOLOGY

The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2016 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2016 unless otherwise noted, M = millions)			
	<u>TSERS</u>	<u>LGERS</u>	<u>RDSPF</u>
Active Members			
Count	305,013	126,647	100
General Fund Compensation	\$10,652M		
Valuation Compensation (Total)	\$14,282M	\$6,049M	\$7M
Average Age	45	44	54
Average Service	10.7	10.2	18.0
Inactive Members			
Count	151,581	63,682	N/A
Retired Members			
Count	208,443	65,930	103
Annual Benefits	\$4,343M	\$1,252M	\$2M
Average Age	71	68	71
New Retirees During 2017	11,100	4,200	1

Financial Statistics (as of 12/31/2016 unless otherwise noted, M = millions)			
	<u>TSERS</u>	<u>LGERS</u>	<u>RDSPF</u>
Accrued Liability (AL)	\$74,548M	\$25,654M	\$32M
Actuarial Value of Assets (AVA)	\$67,377M	\$24,425M	\$49M
Market Value of Assets (MVA)	\$64,247M	\$23,309M	\$48M
Unfunded Accrued Liability (AL - AVA)	\$7,171M	\$1,229M	(\$17M)
Funded Status (AVA / AL)	90%	95%	155%
Required Employer Contribution for FY 2018-19 (as % of pay)	11.98%	7.75% (non-LEO)	\$0

Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	3.50% - 7.75%
Assumed Rate of Investment Return:	7.20%	7.20%	3.75%
Cost Method: Entry Age Normal			
Amortization: 12 year, closed, flat dollar			
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015			

Benefit Provisions			
	TSERS	LGERS	RDSPF
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	75% of Salary; Maximum of \$1,500 per month
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	Retirement from LGERS with 10 years as Register of Deeds
Employee contribution (as % of pay)	6%	6%	None

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from the Fiscal Research Division.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Conduent, "Admin. Changes Ret. System/Treasurer - 2018 – House Bill 977", May 24, 2018, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 977: An Act to Make Clarifying and Administrative Changes to the Laws Relating to the State Treasurer, TSERS, LGERS, State Health Plan, and Related Statutes", May 23, 2018, original of which is on file in the General Assembly's Fiscal Research Division.

LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State or local government retirement systems and does not address sections that have no projected actuarial impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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Signed copy located in the NCGA Principal Clerk's Offices

